2010 INDUSTRY ASSESSMENT FOR CONSUMER GOODS

I. BACKGROUND ON THE INDUSTRY

A. Industry Definition

Eight consumer goods industry analysts on OHCG's Consumer Goods Team cover the NAICS product classifications noted below. In addition, OHCG covers two areas where NAICS codes have not yet been identified: agricultural biotechnology and food related nanotechnology. Other primary focuses are the two emerging global issues of food safety and food security.

The consumer goods products that OHCG is responsible for cover the wide variety of everyday products that are found in virtually every home, office, or retail store.

B. Key Industry Products and Services

Industry Sector	NAICS
Home Appliances	3352
Motorcycles	3369913
Recreational Marine Equipment	336612
Processed Foods	311
Beverages	3121
Furniture	337
Housewares	327, 332, 335, 339
Jewelry	339911, 339914
Lawn and Garden Equipment	333112
Musical Instruments	339992
Printing	323
Sporting Goods	339920
Toys, Dolls, and Games	33993
Dietary Supplements	3254
Agricultural Biotechnology	N/A
Food-Related Nanotechnology	N/A

In 2009, the consumer goods industries that OHCG covers had an estimated $64.7 billion in exports (compared with $65 billion in 2008). Imports totaled an estimated $110.6 billion in 2009 (compared with $128 billion in 2008). Processed foods represent the preponderance of consumer goods exports (roughly $48 billion in both 2008 and 2009). In an effort to focus on new technologies and increasingly competitive industries, OHCG has redirected resources to the developing industries of dietary supplements, agricultural biotechnology, and food related nanotechnology applications as the Consumer Goods Team begins to concentrate in food and related products, recreational goods (toys, marine craft and motorcycles), and a limited number of traditional consumer goods, such as furniture and appliances.

C: North American Industry Classification System (NAICS)

Selected Industry Trade Statistics - *2009 estimates based on Jan-Sept data*

Appliances (NAICS 3352)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	2,543	2,743	3,208	3,513	3,531	3,514	***2,800***
Imports ($ Million)	11,254	13,174	14,896	17,464	18,348	17,680	***15,000***

Motorcycles (NAICS 3369913)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	864	917	983	1,252	1,589	1,875	***1,420***
Imports ($ Million)	3,213	3,809	4,277	4,449	3,903	3,921	***3,100***

Recreational Boats and Marine Equipment (NAICS 336612)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	1,005	1,464	2,011	2,136	2,611	2,789	***1460***
Imports ($ Million)	2,104	2,220	2,486	2,685	2,325	1,981	***730***

Processed Foods (NAICS 311)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	26,785	25,895	28,815	32,201	38,746	48,494	***48,200***
Imports ($ Million)	21,104	23,763	27,734	29,753	31,802	39,981	***36,100***

Beverages (NAICS 3121)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	1,802	2,075	2,102	2,526	3069	3,965	***3,950***
Imports ($ Million)	10,384	11,088	12,305	14,029	15,361	15,246	***13,800***

Home Furniture (NAICS 337)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	2,287	2,561	2,751	3,070	3,378	3,855	***2,097***
Imports ($ Million)	19,442	22,324	24,845	26,656	27,203	25,572	***17,429***

Sporting Goods (NAICS 339920)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	1,730	1,865	1,925	2025	2,086	2,163	***1,740***
Imports ($ Million)	4,788	5,199	5,455	6,097	6,359	6,519	***5,328***

Lawn/Garden (NAICS 333112)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	838	880	993	1,317	1,391	1,740	***1,680***
Imports ($ Million)	430	545	630	701	739	892	***842***

Toys (NAICS 33993)	2003	2004	2005	2006	2007	2008	***2009***
Exports ($ Million)	835	862	880	1,070	1,983	1,554	***1,438***
Imports ($ Million)	15,062	14,173	14,244	16,243	16,971	23,820	***18,200***

II. INDUSTRY OVERVIEW and GLOBAL COMPETITIVENESS

Industry Characteristics

Over the last 10 to 20 years, many sectors of the U.S. consumer goods industry (toys, bicycles, house wares and small appliances, jewelry, etc.) have become import-oriented. In many of these industries, U.S. manufacturers have relocated production overseas (primarily to Mexico or China, but also to Malaysia, Vietnam, and other Asian countries), while retaining key activities within the U.S., such as management, marketing, research, and design. However, other domestically produced consumer goods are highly competitive both domestically and internationally, such as recreational boats and marine engines, lawn and garden products, sporting goods (particularly golf and exercise equipment), motorcycles, processed food, dietary supplements, and beverages. Because of the wide disparity of product sectors within the consumer goods industry, it is not possible to generalize about the global competitiveness of the overall consumer goods industry.

The composition of the companies comprising the consumer goods sector is as varied as the industries of which it is composed. In the appliance, processed food, beverage, agricultural biotechnology, motorcycle, marine engine, boat, and toy industries, for example, a few large, internationally recognized manufacturers dominate the industry (e.g., Whirlpool, Harley-Davidson, Brunswick, Mattel, Hasbro, Procter & Gamble, Kraft, Tyson Foods, PepsiCo, Kelloggs, General Mills, Dean Foods, Smithfield Foods, ConAgra, Monsanto, Dow AgroSciences, Dupont's Pioneer Hi-Bred, Cargill, etc.).

In between these two extremes lies the furniture industry, which is comprised of a relatively large number of medium-to-large sized enterprises, but due to a variety of historical reasons, does not effectively market its products under widely recognized brand names. Because the furniture industry has not effectively marketed itself through strong brand identification, customers have come to treat furniture as almost a commodity product. The furniture industry, in recent years, has begun to experience extensive economic dislocation from greatly increased levels of imports, primarily from China. Both U.S. retailers and certain manufacturers have begun importing substantial quantities of finished furniture and component parts (at all retail price points) from China and other Asian countries, incorporating these imports seamlessly into selected furniture brands. At the same time, in late 2003, a large segment of the industry supported the filing of an antidumping allegation against China, resulting in minimal dumping duties being applied to Chinese bedroom furniture.

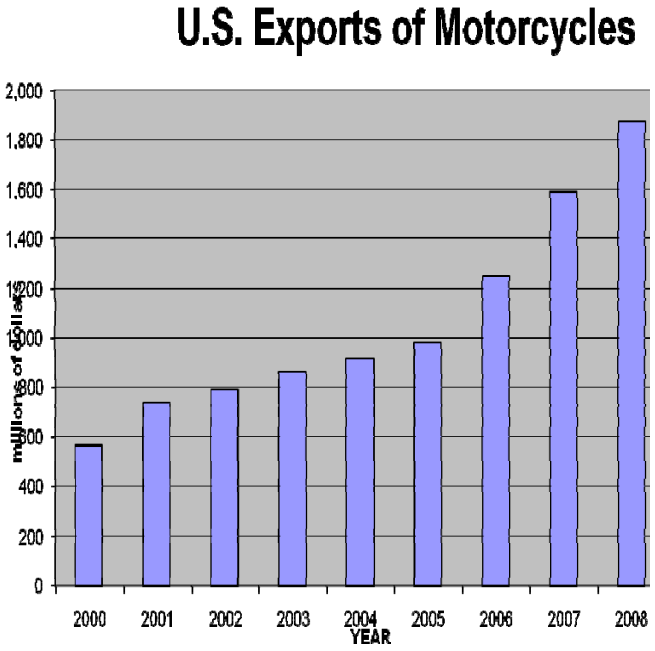
Competitive Domestic Consumer Goods Sectors

The processed food and beverage industry is highly competitive in the domestic market. More than a third of the world's top 50 food processing firms are headquartered in the United States. U.S. sporting goods, toy, and children's entertainment companies dominate the world consumption of recreational equipment and toys (e.g., Nike, Mattel, etc.). Although they source from around the world, the high-wage R&D and marketing jobs in these industries are primarily based in the United States. Similarly, the dietary supplement industry is also competitive globally. The furniture and appliance industries remain competitive domestically, but find themselves under increasing international

pressure. Like other leisure/entertainment industries, most of the world's consumption of recreational marine products takes place in the U.S. This gives U.S. boat manufacturers an economy-of-scale competitive advantage both here and overseas despite the fact that the production of boats is a labor-intensive process. In agricultural biotechnology the U.S. is the largest producer and consumer of ag-biotech products and houses the headquarters for most of the leading global ag-biotech research and development firms.

How Imports are Affecting the Domestic Industry

For the majority of consumer goods industries, U.S. export and import data do not provide a complete picture of the strength of the U.S. based industry. For example, the U.S. imported $23 billion worth of toys, dolls and games in 2008. The preponderance of these imports were U.S. brand toys (Mattel, Hasbro and their subsidiary companies) that are manufactured overseas by, and for, U.S. companies. The top five source countries were China (accounting for 89 percent of all toy imports), Japan, Mexico, Taiwan, and Denmark. By comparison, the U.S. toy industry exported $1.98 billion of U.S. made toys in 2007, roughly 50% of its production. The top five export destinations were Mexico, Canada, Hong Kong, the United Kingdom, and Brazil. Canada and Mexico combined to account for 65 percent of U.S. toy exports. At first glance, these figures would appear to indicate that the U.S. industry had lost share at home to foreign competitors. In reality, the imports reflect the fact that the U.S. toy companies have invested heavily in overseas manufacturing. The toy industry has simply taken advantage of the free trade agreements that the U.S. is party to and sources its products in countries that allow it to maximize its profit.



Competitiveness in World Markets

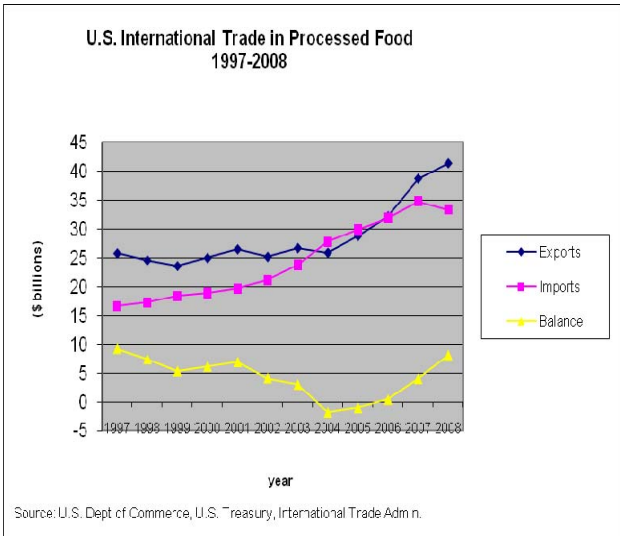
Many consumer goods industry segments are active exporters to Canada and Mexico, but a smaller number are competitive on a global scale including: processed foods and beverages; dietary supplements; wine; distilled spirits; sporting goods (golf and exercise equipment); lawn and garden equipment; recreational boats, and motorcycles (e.g., Harley-Davidson is the leading seller of large motorcycles in Japan). Others segments, such as furniture, are only competitive in certain markets (e.g., Saudi Arabia, the United Kingdom, and Canada), and appliances (Korea and United Arab Emirates). Due to its relative scale, U.S. made household furniture is simply too large for the majority of apartments and homes abroad. Many traditional consumer goods sectors are becoming dominated by imports and are not, nor have been, dynamic exporters in many years.

2009 witnessed a 10 percent decline on overall U.S. processed food imports, to a projected $36 billion from $40 billion in 2008. U.S. exports also were reduced by a similar amount, 11.5 percent. Total projected 2009 processed foods exports for 2009 are $43 billion resulting in a net trade surplus of $7 billion.

Matching the experience in the processed foods sector, the U.S. wine industry experienced an export decline of 11.7 percent in 2009, and an import reduction of 15 percent. Notably, U.S. wine exports to Hong Kong and China rose by 63 and 26 percent, respectively.

Industry's Share of World Market

While many consumer goods categories are losing domestic market share to imports, primarily from developing economies, the picture is complex for the broader consumer goods sector. For example, depending upon which segment of the consumer goods industry is being considered, the U.S. share of consumer goods is increasing in some sectors and decreasing in other sectors. For example, U.S. exports of motorcycles ($1.9 billion in exports in 2008, up from $1.5 billion in 2007) and lawn and garden products ($1.7 billion in exports in 2008, up from $1.6 billion in 2007) are healthy and growing. For the U.S. recreational boat industry, imports declined and exports increased. As a result, the trade surplus for boats increased from $685 in 2007 to $1.2 billion in 2008.



Source: U.S. Dept of Commerce, U.S. Treasury, International Trade Adm n.

Other industries, including the furniture, are losing market share to developing country producers, located primarily in Asia. While there is continued strength in domestically manufactured large appliances such as refrigerators, washers, and dryers, there has been some shifting of production to Mexico. It should be noted that the U.S. is not a major exporter of large appliances (refrigerators, washers and dryers, ranges and ovens) since the leading U.S. brands are manufactured globally. The U.S. flatware and casual chinaware industries have suffered substantial economic stress as a result of international competition. For example, Oneida, formerly the largest U.S. flatware producer, has closed all domestic manufacturing facilities and is now sourcing offshore, primarily from Asia. Likewise, Pfaltzgraff, the last remaining U.S. household earthenware producer, closed its plant and sold its brand name and retail stores to an importer in 2005.

Major Drivers Affecting Global Competitiveness

Certain dynamic consumer goods industries, such as the golf, boat, and motorcycle industries, have remained internationally competitive through the development of new technology and manufacturing processes. In particular, the U.S. boat industry benefits from economies of scale as the U.S. boat market is large enough to create assembly line

cost advantages over foreign products. The processed food industry is characterized by the introduction of numerous new products and rapid development and investment in technology and manufacturing processes. Many leading U.S. processed food companies are highly competitive large multinational companies. Although competition from foreign competitors is increasing, the industry should be able to perform well in the coming years. Other industries, such as toys and furniture, are slowly transforming themselves from domestic manufacturing and producing industries into importing and distribution industries. In other cases, such as the watch industry, virtually the entire industry is represented by imports.

The primary global trends within the consumer goods industries vary with each sector, although the global economic recession is a primary driver for individual sector trends. For example, within the furniture industry, the key trend beyond the recession is increased imports of certain product lines (generally the entry-level, lower-priced product lines, but increasingly the mid-priced lines as well) from low-cost producers in China. The appliance industry trends indicate increased foreign production of smaller home appliances, and a diminishing vitality of domestically manufactured large appliances such as refrigerators, washers and dryers, etc. The major large-appliance manufacturers have cut their production employment by approximately four percent per year for the last five years, due to both increased international competition and increased productivity. The current credit, economic, and housing environment is certain to place additional strain on the major appliance industry as it is heavily reliant on strong housing starts to sustain its growth, and most so-called white goods are purchased on a credit basis. Luxury goods such as boats and marine engines are expected to experience a significant drop in demand as economic uncertainty and credit restrictions limit the number of potential purchasers.

The processed food and beverage segment continues to succeed in the international market, although one challenge to this continued success lies in international acceptance of genetically engineered raw materials that are processed and/or incorporated into consumer grocery products. OHCG is working very closely with USTR, USDA, FDA, and the private sector to encourage greater international acceptance of genetically engineered foods, through the International Standards Organization (ISO) and Codex Alimentarius (the UN-based international standards setting body for food products), and the Cartagena Biosafety Protocol (a UN-based international standards setting body for trade and transboundary movement in living modified organisms, i.e., seeds).

Foreign direct investment in the global processed food industry has grown in recent years as many U.S.-based food companies are building plants in foreign markets since production technology is fairly mobile and supermarkets often prefer to source locally. Intense competition globally and relatively high tariffs on processed products are expected to moderate growth in the food and beverage industry with best prospects for continued growth in the NAFTA countries and Asia. U.S. exports of wine are growing at a consistent rate.

As U.S. consumers change their consumption patterns towards imports and high-end U.S. regional beers, the large U.S. brewers are seeing their market share erode. As a result, large brewers are forming, at a greater pace, alliances with foreign producers and U.S. regional producers. One niche market trend being closely watched in the beverage

segment is the increase in exports of U.S. bottled water. It appears that with increased demand and sales in general around the world, U.S. bottled water seems to be gaining international acceptance. Increased sales in key markets include Japan and several other countries in Asia and the Caribbean Islands.

The developing Asian markets are expected to be fruitful long-term markets for U.S. motorcycle exports, particularly in Taiwan, China, South Korea, and India, as the U.S. presses these countries for regulatory reform (licensing, financing, urban riding restrictions, and expressway bans).
The golf industry also looks to both Asia and Europe for continued growth as the number of U.S. courses decreases slightly and the number of rounds played remains flat.

Major Competitors
In many consumer goods industries (toys, housewares, furniture, small appliances, marine engines, etc.), the key international competitors come from the developing Asian economies. This is due to both the growth of indigenous consumer goods industries in these countries (reflecting the rising living standards of the citizens of these countries) and the relocation of U.S. manufacturing facilities to take advantage of comparatively cheaper production costs.

Europe and Japan also serve as major competitors in such industries as high-end appliances (Electrolux) and motorcycles (Honda, Kawasaki, Yamaha). The main global competitors in the processed food industry come from the NAFTA countries, followed by China, Australia, Italy and Brazil. The EU remains our primary competitor in the high-end furniture market.

Standards Affecting Industry
The overall consumer goods sector is affected by a number of standards both domestically and overseas. As an established, mature industry, the domestic standards faced by most consumer goods industries relate to product safety, emissions and have already been addressed. Overseas, new regulations and standards are affecting both U.S. exports and overseas production by U.S. firms. Examples of these overseas standards are the EU's REACH initiative on chemicals, emission and noise standards on lawn and garden products, motorcycles, and boats. Food labeling standards are also beginning to be of great concern to the U.S. processed foods industry, particularly GMO labeling requirements for foods incorporating genetically engineered products and country of origin labeling for products that are sourced globally, based on the growing seasons.

Macroeconomic Environment
The current domestic credit environment continues to materially affect demand for big-ticket items such as recreational boats, marine engines, and large motorcycles. For example, Harley-Davidson's domestic unit sales have declined from 182,000 units in 2007 to a projected 160,000 in 2009. However, the number of exported motorcycles has steadily increased from 89,000 on 2007 to a projected 100,000 in 2009. The credit crisis will also affect the furniture and appliance industries significantly as lower house starts and reduced sales of existing homes affect demand for these products. Fluctuating fuel prices resulted in increased demand for high mileage motorcycles, but did not appear to affect demand for boats.

III. ASSESMENT OF INDUSTRY DOMESTIC ENVIRONMENT

Which regulations are affecting the industry, and what are the effects on the industry's competitiveness?

With recent public health scares from imported pet food, toys, and other products, food safety and insuring the safety of imported food and ingredients has become an increasingly important issue. Most large food processors source ingredients from around the world. The President's Action Plan for Import Safety issued in November of 2007 identifies a number of actions to ensure the safety of food and consumer products that are in the U.S. market. Commerce has been active both in developing and implementing the Action Plan. For example, OHCG's staff covering the food industry played a leading role in the development of the Action Plan's recommendations for good importer practices, part of the FDA's Food Protection Plan to enhance the safety of the U.S. food supply and to protect it against unintentional and deliberate contamination. OHCG also played a role in the development of FDA's Memorandum of Understanding with China's AQSIQ on food safety. The Grocery Manufacturers Association and Wal-Mart also developed action plans for strengthening imported food safety. All importers are required to adopt a foreign supplier quality assurance program and verify that imported ingredients meet Food and Drug Administration food safety and quality requirements.

The United States has also been working with Australia and China to develop an initiative under APEC's Food Safety Cooperation Forum to bring together a network of food safety experts in government, industry, and academia to provide food safety training in the APEC region. Commerce has taken a leading and coordinating role in developing and implementing this program, which kicked off in August, 2009 at an OHCG/Grocery Manufacturers Association-sponsored training workshop in Singapore. Five further events are scheduled for 2010 throughout the APEC region.

There is proposed legislation relating to agricultural biotechnology, such as liability in production of genetically engineered organisms and increased aid to farmers to assist in purchasing genetically engineered seeds. The implementation (in August 2007) and phase-in over a three-year period of FDA's good manufacturing practices (GMPs) for dietary supplements is having a positive impact on U.S. dietary supplement companies. Overall, the industry welcomed the GMPs, as their absence was a source of major criticism concerning the lack of adequate regulation and government oversight. Such domestic regulation also helps U.S. industry export their products to new markets which had previously rejected U.S. goods due to a lack of government oversight.

Domestic regulations within the consumer goods sector often mirror similar regulations enforced by our major trading partners, and primarily address health and safety issues (motorcycle helmet laws; emissions regulations for lawn and garden equipment, boats, and motorcycles; flammability standards for furniture and mattresses; food safety regulations and standards for processed food, etc.) and have not proven to be overly burdensome to U.S. competitiveness. In some cases, U.S. regulatory policies governing food safety have improved U.S. product marketability, especially in other like-minded

markets for most consumer goods such as the EU, Japan, and Canada, where there is a history of strict product regulation.

Prospective Regulatory Issues

There are no significant regulatory proposals that would materially affect the competitiveness of the consumer goods sector. One example of pending legislation is a proposed country-of-origin label for furniture that would clearly indicate the origin of a piece of furniture, in the form of a label that could not be removed by a retailer. The bill has been referred to subcommittee but no further action has been taken. This is an effort by a segment of the U.S. furniture-manufacturing sector to better market made-in-the-U.S. furniture and to develop brand identity and loyalty. However, the American Home Furnishings Alliance has taken a neutral stance on the bill and does not believe that consumers will opt for higher priced U.S. made furniture when faced with a lower-priced product of similar quality produced abroad.

An increasing trend affecting many consumer goods companies is the export of regulations from the EU to developing countries. In many cases, U.S. manufacturers see the EU regulations as overly burdensome and based on the precautionary principle rather than on a demonstrated risk of harm or injury. For example, mandatory GMO labeling on food products incorporating genetically modified organisms, or country-of-origin labeling, which would pose a significant burden to U.S. food manufacturers who source globally on a seasonal basis.

Non-regulatory policies

The U.S. sugar policy results in domestic sugar prices that are about three times higher than the world price and thus increase the cost of this ingredient for processed food producers. Some production in the candy industry is moving outside the U.S. due to high U.S. sugar prices. This circumstance was presented in the Department's comprehensive 2006 report *Employment Changes in Food Manufacturing: the Impact of Sugar Prices*, which was provided to the U.S. Congress in June 2006. Additionally, the now-expired safeguard action on steel had a severe effect on the competitiveness of the U.S. major appliance industry, as its primary input, steel, was priced substantially higher in the U.S. than on the world market, resulting in increased off-shore manufacturing. On-going steel and other antidumping and countervailing duty investigations have also led to increased steel prices for domestic manufacturers.

Import Safety

In 2007, 45 million toys and other children's products were recalled for hazards such as lead paint and small powerful magnets that could injure children if swallowed. After numerous Congressional hearings on toy safety, the Congress passed, and the President signed, H.R. 4040 entitled "Consumer Product Safety Improvement Act of 2008." This Act significantly impacts the U.S. toy industry in the following ways. The Act decreases lead limits to among the lowest limits in the world and effectively bans lead from children's products, and requires new third party testing and certification for certain children's products. Children's products will be required to bear tracking labels that would allow their path from factory to store to be more easily retraced in the event of a recall. Toys and games advertised for sale on the internet and in catalogs will be required to prominently display the same cautionary language included on product packaging.

The voluntary industry standard ASTM F-963 will become a mandatory standard overseen by the Commission. Finally, the Act bans phthalates, a group of chemicals added to plastic toys and other plastic products to make them soft and pliable until the results of a Chronic Hazard Advisory Panel are known. It should be noted that the safety of the most commonly used phthalate, DINP, has been studied widely and the U.S. Consumer Product Safety Commission (CPSC) has determined that the use of DINP posed no "demonstrated health risk." OHCG and ITA have worked on trade compliance cases related to bans by Japan, the European Union, Korea, and Israel on toys containing the phthalate DINP under the guidance of CPSC staff.

All of the changes mandated by the Act take place under a strict timetable spelled out in the legislation. However, on January, 2009, the CPSC voted 2-0 to postpone for one year the enforcement of testing and certification requirements in response to a request by 67 industry groups including the Toy Industry Association (TIA) and the National Association of Manufacturers. The stay of enforcement of the testing and certification provisions gives some temporary and limited relief to small manufacturers, home-based businesses and crafters who cannot comply with the law without incurring substantial testing costs. However, the stay does not relieve them of complying with the underlying requirements enacted by Congress and which go into effect on February 10, 2009. Retailers, thrift shops, charities, and other sellers are still required to meet all standards enacted by Congress. TIA and its members are now asking Congress to immediately delay implementation of the lead, phthalates and other standards requirements until the CPSC can issue final comprehensive rules and interpretative regulations that will allow for a reasonable implementation.

Domestic Labor Environment

Over 25,000 people are employed in the production of lawn and garden equipment and over 35,000 people are employed in equipment retailing. Domestic manufacturers dominate the home market and enjoy healthy sales in Europe, Canada, and Australia. There were 1,136 active boat builders in the U.S. with 44,565 employees in 2008.

Employment in the processed food and beverage industry decreased slightly from 1.56 million in 1996 to 1.34 million in 2007. Better technology and increasing automation have allowed companies to produce more while slightly reducing employment levels. Currently, approximately 84 thousand jobs are linked directly to food exports. The furniture industry has cut its domestic employment levels to an even greater degree as it moves more and more production offshore. Only 4 percent of jobs in the furniture sector are directly tied to exports.

Although the appliance industry has cut its employment rolls by over 20 percent over the past few years, General Electric's Consumer & Industrial business announced in December 2009 that will make its new "smart" washer and dryers at its Louisville, KY Appliance Park plant starting in 2012. Making the high-end machines will create 430 new manufacturing and engineering jobs. When combined with GE's decision earlier in 2009 to build a new hybrid water heater in Louisville, it brings the total number of new jobs announced in 2009 at the plant to 830.

Employment in the agriculture biotechnology segment has grown recently and includes thousands of jobs across the country and especially in Iowa, Indiana, New Jersey, and North Carolina. However, official employment data for this industry as well as for nanotechnology are not available. U.S. employment in the toy industry was 17,200 in 2007, down from a high of 23,200 in 2002.

Overseas Production

U.S. processed food manufacturers take advantage of the large U.S. market to produce and sell many of their products in the U.S. However, as there is more competition for the U.S. market, many U.S. companies are concentrating on expanding into emerging overseas markets and are investing significant capital in areas such as Latin America, Eastern Europe, and Asia. It is estimated that at least 15 percent of all U.S. agricultural products imported into the United States are from U.S. overseas subsidiaries.
The alcoholic beverage industry, in order to better compete globally, depends not just on exports, but also on increasing its profitability through joint ventures and licensing agreements.

The furniture industry is beginning to focus its energies on closing U.S. production sites in exchange for contracted Chinese and Vietnamese production. Because of the size and bulkiness of its products, the U.S. mattress industry exports very little, and faces limited import competition, primarily from high-end European brands of non-traditional mattresses. Many home furnishings companies manufacture in foreign countries near major distribution centers using their U.S. brand names, as well as unique brand names suitable to the host market.

The consumer goods industry has, for the most part, been able to retain in the U.S. its management, planning, research and development, and marketing functions. For example, while the two major U.S. toy manufacturers (Mattel and Hasbro) have virtually no domestic production, they provide over 6,000 of the highest paid jobs in the industry in the U.S. However, in the appliance industry, some of the larger multinational corporations are now beginning to outsource some “back office” operations such as accounting and engineering to low labor cost countries such as India.

Global Supply Lines

Free trade agreements, such as NAFTA, have reduced tariffs on seasonal fruits and vegetables, which provides increased sourcing options for year-round processing of fruits and vegetables into jams, canned goods, and other processed foods.

The larger multinational appliance corporations are sourcing more parts globally, utilizing the lowest cost parts available into their production, both in the U.S. and in foreign countries. U.S. manufacturers of nutritional supplements source many of the ingredients used in finished products from China and India, the predominant global suppliers of such raw materials. The supply of most agriculture biotechnology products are limited in any given season, and are affected by global weather patterns. However, the large companies involved in this segment maximize their ability to create their own supply around the world based upon growing seasons.

Foreign Investment in the U.S.
The U.S. alcoholic beverage industry has developed a series of strong international alliances. Not only do U.S. companies invest overseas but also a number of foreign concerns invest in U.S. assets. In 2008, Anheuser-Busch, the largest U.S. brewer was purchased by the Belgium brewer, InBev.

In late 2009, Swiss food manufacturer Nestle (the world's largest food and beverage manufacturer) announced that it had purchased Kraft's frozen pizza business for $3.7 billion. In turn, Kraft has initiated an offer to purchase the UK's Cadbury PLC.

In the appliance sector, Sweden's Electrolux has made significant investments in the U.S. economy, and is now the third largest domestic manufacturer of household appliances and lawn and garden equipment (currently controlling Eureka Vacuums, Frigidaire, Poulan, and Weedeater).

With all of the major players in agriculture biotechnology having their agriculture biotechnology headquarters in the U.S. including the top foreign firms (BASF, Syngenta and Bayer CropScience) significant foreign investment in the U.S. exists in the agriculture biotechnology industry segment. However, because of the generally import-dominated nature of the overall consumer goods sector, most consumer goods industries have not witnessed significant foreign investment. Exceptions are foreign manufacturers interested in acquiring well-known U.S. brand names. Haier, a Chinese appliance manufacturer, attempted to acquire Maytag before Whirlpool outbid it in 2005.

Domestic Trends
Continued U.S. consumer goods investment in overseas manufacturing, particularly in China, is expected. However, that investment will likely result in increased sales from U.S. owned plants in China to increasing numbers of Chinese middle-class consumers, and an increase of Asia-wide sales of U.S. brand names. Of course, such sales by U.S. producers will not appear in trade statistics, but will be reflected in the balance sheets of the participating companies. U.S. processed food exports are expected to continue expanding into foreign markets as become more willing to accept processed foods derived from biotechnology. We will also work directly with leading U.S. developers of agricultural biotechnology to insure overseas market access to developed and developing markets, through the advocacy of sound scientific research and sound policies addressing the use of biotechnology.

Harley-Davidson continues to enforce its policy of exporting U.S.-manufactured motorcycles and has consistently rejected opportunities to manufacture in other markets in exchange for increased market access, citing its made-in-America policy as a key marketing tool in many foreign markets, where Harley defines the ideal large motorcycle. We will maintain our dialog with Japan to further open its markets to U.S. marine craft, and will continue to work with industry to address market access issues through both bilateral discussion and through multilateral forums, such as our four APEC projects currently in process (food safety, toys, motorcycles, and wine).

IV. ASSESSMENT OF INDUSTRY TRADING ENVIRONMENT

Key Export Opportunities

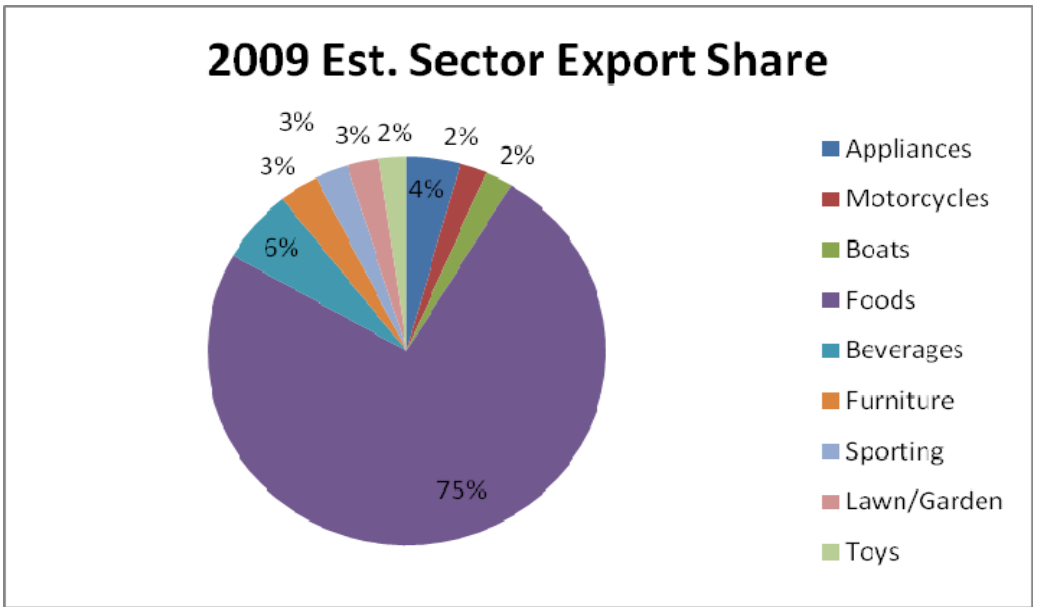
Various consumer goods industry associations are aggressively working to expand exports and open foreign markets to increased U.S. market participation. Among them is the National Marine Manufacturers Association, which has joined with the OHCG in a Memorandum of Understanding with the Japanese government and a variety of private-sector Japanese parties to increase U.S. exports of recreational boats, marine engines (primarily Mercury Marine), and related marine safety equipment. The American Home Furnishings Alliance is participating in the creation of the World Furniture Congress, the first international furniture association, which has stated its intention of lowering barriers to the trade of furniture globally.

India and China are emerging as potentially strong golf equipment export destinations. In early 2010, Callaway Golf Co. announced that it had signed India's most famous golfer as a 'brand ambassador' and projects that the number of golfers will grow at an annual rate of 30 percent over the next few years. The number of golf courses as grown from 80 to over 250 since 2004, and Callaway projects a market worth "several hundred million dollars' going forward. This is comparison to established markets such as the U.S. and Europe, where long-term growth is projected to be as low as 1-2 percent. Due to the challenging economy, however, 2009 U.S. exports of golf equipment dropped 38 from 2008 levels (based on nine-month data).

OHCG is also working closely with the Natural Products Association (NPA), other leading industry trade associations, and a variety of U.S. manufacturers to continue the development of increased ITA expertise in the nutritional supplements sector. In the fall of 2007, ITA awarded a two-year Market Development Cooperator Program (MDCP) cooperative agreement to NPA to expand U.S. dietary supplement sales in China, while also safeguarding the global supply chain for natural products, including dietary supplements. OHCG is administering the MDCP award and working closely with NPA on its objectives to: 1) improve market access in China; 2) safeguard and manage the supply chain for natural products by working with its partner U.S. Pharmacopeia (USP) to test U.S.-bound shipments of ingredients (which will be used by finished product manufacturers for export worldwide); 3) stage trade missions and trade shows in the United States and China; and 4) increase its online communication capabilities.

In addition to these developments in the sector, among the outcomes of the 19th U.S.-China Joint Commission on Commerce and Trade (JCCT) in the fall of 2008, China and the United States agreed to explore dietary supplement cooperation, and a meeting with FDA, China's State Food and Drug Administration, and other agencies is scheduled for late March, 2010.

OHCG is also a key player in the implementation of the World Wine Trade Group, whose purpose is to develop mutual recognition of signatory wine making practices and to develop mutually acceptable labeling standards among the eight existing member states. Discussions are now underway to expand the WWTG to non-producing APEC markets. The Republic of Georgia is also negotiating to join.



OHCG will also continue to expand its work with processed food industry associations and other key industry stakeholders supporting agriculture biotechnology as it relates to trade in processed food and beverages and trade issues including domestic and international regulations and standards issues involving work with ANSI, Codex, ISO, APEC, OECD, etc.

Included in this will be more work with the U.S. Trade Representative, USDA and other interagency participants on several issues including: ensuring EC compliance with a 2006 WTO case ruling regarding the EC's moratorium on agriculture biotechnology; APEC's Food Initiative; Codex Alimentarius, including ensuring that final recommendations of the Codex Intergovernmental Ad Hoc Task Force on Food Derived from Biotechnology are implemented appropriately; ISO's 2008 Strategic Initiative on Biotechnology; and work in preparation of the next meeting on the Cartagena Biosafety Protocol, scheduled for 2010.

What Industry Needs and Expects from the USG

The more trade-aggressive sectors of the U.S. consumer goods industry look to ITA and OHCG to provide both general and industry-specific information and assistance on a wide range of trade policy and market access issues. For example, many sectors of the industry look to OHCG and the industry analysis reports on its web site for the latest, and most accurate, statistical view of product-specific import and export data. Consumer goods companies and/or their representative industry associations also contact OHCG for assistance on addressing foreign trade barriers, and also to provide expert policy guidance on matters concerning bilateral and multilateral trade negotiations, retaliation concerns, and technical trade barriers. Industry and trade associations look to OHCG staff to actively represent industry interests on U.S. bilateral and multilateral negotiating teams.

OHCG also administers an Industry Trade Advisory Committee: ITAC-4 for Consumer Goods. Agricultural biotechnology and nutritional supplement representatives serve on

ITAC-3 (Chemicals), and OHCG ensures that the industry members are briefed on related trade issues as necessary.

Obstacles Facing the Industry in Expanding Overseas

Japan Recreational Boat Standards: Japan's boat and marine engine certification and inspection process has long-served as an effective non-tariff barrier to U.S. exports. However, OHCG has achieved substantial success over the last four years, and Japan is now a strong and growing export market for U.S. boats and yachts. Larger policy discussions have now progressed to technical talks between U.S. the U.S. standards-setting body (the American Boat and Yacht Council) and Japan's regulatory agency. Japan's continuing process of adopting ISO standards will be monitored by the U.S.

Noise and Emission Standards: Noise and emission regulations serve as another common technical barrier to trade. The U.S. motorcycle industry routinely combats restrictive and market-specific emission standards that are specifically designed to thwart exports of U.S. motorcycles to a variety of countries. Often, these countries, such as Brazil, Thailand, and China, maintain generally more forgiving air quality regulations, but devise specific requirements for large, generally imported motorcycles to protect their domestic motorcycle manufacturers, which generally produce smaller motorcycles that adhere to their own regulatory standards. The European Union's planned noise restrictions could potentially block most U.S. exports of outdoor power equipment from reaching European consumers.

Domestically, a uniform nationwide noise/emission standard could increase efficiency significantly within the industry. Currently, California and several large municipalities mandate much stricter standards than the rest of the country, which essentially forces manufacturers to produce two separate versions of every product.

EU Food Standards: The EU has increasingly taken a precautionary approach to food standards due to consumer concerns regarding the use of genetically modified organisms in food and tries to push that approach in international standards setting bodies such as Codex Alimentarius and ISO. The EU recently implemented traceability and labeling regulations, which requires all products containing genetically modified organisms to be labeled. Many U.S. producers are reformulating their products to avoid labeling and/or getting out of the EU market. Several other countries are now also looking to adopt similar legislation (including Russia, India, Korea, etc.) that will affect U.S. producers the same way as in Europe.

Selected Foreign Toy Standards: ITA teams including staff from OHCG, MAC Desk Officers, and MAC's Trade Compliance Center are currently working on a broad range of toy issues including import licensing in Brazil and Indonesia, burdensome testing requirements in Brazil, a ban on toys in India. Additionally, the team is trying to substantiate rumors of a new toy testing systems emerging in Korea and Venezuela.

Nanotechnology: OHCG has also begun monitoring how the EU and others plan to regulate processed foods and food packaging applications of nanotechnology. Food scientists claim that the use of nanotechnology can improve the quality and safety of food and lead to the creation of new products. Examples include improving the taste of foods,

delivering flavor and aroma at the point of sale, creating unlimited shelf life, and increasing the bioavailability vitamins and minerals. Food packaging can also be improved by the creation of antimicrobial surfaces, edible packaging, and smart surfaces that will signal when produce is ripe or when meats have spoiled. However, there are many concerns associated with the technology's use in the food supply. Little is known about how the body metabolizes the nanoparticles, whether they migrate from food packaging, or how they should be disposed of in the environment. There is also a concern that the increase in bioavailability of nutrients will cause consumption beyond the recommended daily allowances of vitamins and minerals.

Food Labeling: There is considerable debate over labeling foods containing engineered nanoparticles. All agree that consumer education about the benefits and risks of nanotechnology is important to secure a buy-in from the public and avoid a situation similar to the GMO resistance in the EU. However, U.S. researchers argued that introducing labeling now without first educating consumers would cause a consumer backlash and stunt research while European scientists argued that consumer choice through labeling is a right. The FDA recently released a Task Force Report on Nanotechnology and stated that there is no known information at this time that supports a general label but that the Agency will review products on a case-by-case basis. It does not rule out the need to label in the future once more risk assessments have been completed.

World Wine Trade Group (WWTG): WWTG is an informal group of government representatives with a mutual interest in facilitating the international trade in wine and avoiding the application of obstacles to international trade in wine. Two agreements have been negotiated and signed by all members of the group: (1) Mutual Acceptance Agreement on Oenological Practices and (2) Agreement on the Requirements for Wine Labeling. A second phase has now commenced to further reduce trade barriers among the members as well as increase wine trade in other parts of the world with non-producing nations (e.g., APEC).

Other Impediments to Export Growth

The key impediment to a vigorous growth in SME-based consumer goods exports is education and the ability/willingness of industry to identify markets and non-tariff market barriers that ITA and MAS could address. Many potentially successful manufacturers are satisfied producing and selling their products within the U.S., and view exporting as a daunting challenge that requires additional manpower, commitment, and a certain amount of risk. This is particularly true of the smaller housewares and giftware manufacturers.

For SME processed food companies, the regulations and standards they must meet to export food can be burdensome. Many consumer goods industries face significant competition from imports, and are hesitant to compete with them in third-country markets. However, there are also many larger consumer goods manufacturers that are successfully exporting their products globally and are international leaders in their industry. This is the essential nature of the U.S. consumer goods industry, because it comprises all manner of commercial and industrial activity, from huge multinational corporations that manufacture in facilities throughout the globe to small-scale enterprises that are essentially home-based companies.

The Department of Commerce's standards initiatives will have a beneficial impact on the international competitiveness of the U.S. consumer goods manufacturing sector. Standards are a pressing issue for consumer goods. Examples of standards-related market access barriers are: flammability standards for upholstered furniture and bedding; noise and emission standards for motorcycles and lawn and garden power tools; chemical content standards for toys; and the use of genetically engineered agricultural biotechnology products in processed foods.

How is the International Trade of Consumer Goods Affected by Other National Priorities?

Overall, the domestic consumer goods industry is not overly impacted be competing national policy priorities. Until recently, the appliance industry was significantly impacted by a decision to protect the U.S. steel industry, which resulted in increased raw material prices for industries that consumed steel. Currently, we see that there is growing competition between the energy and processed food sectors for the raw materials due to increased ethanol and biofuels productions based on commodity crops.